Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Asian Paints Ltd

All-round show; growth story to stay colourful

Consumer Goods	Sharekhan code: ASIANPAINT

Reco/View: Buy	↔	CMP: Rs. 3,107	Price Target: Rs. 3,689	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 31.27

Updated July 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

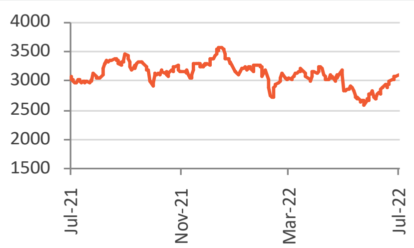
Company details

Market cap:	Rs. 298,080 cr
52-week high/low:	Rs. 3,588/2,560
NSE volume: (No of shares)	14.0 lakh
BSE code:	500820
NSE code:	ASIANPAINT
Free float: (No of shares)	45.4 cr

Shareholding (%)

Promoters*	52.6
FII	19.8
DII	8.4
Others	19.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.1	-1.3	-1.3	1.5
Relative to Sensex	6.2	1.4	3.2	-3.1

Sharekhan Research, Bloomberg

Summary

- Asian Paints Ltd (APL) clocked a strong all-round performance in Q1FY2023 with consolidated revenues growing by 54.1% y-o-y to Rs. 8,609.9 crore and OPM improving by 172 bps y-o-y to 18.1% resulting in healthy 83.5% growth in the adjusted PAT to Rs. 1,053.9 crore.
- Volume growth of the decorative paints business stood at 37% highest in the past six quarters; demand environment remains stable across key markets and management target double-digit volume growth in quarters ahead.
- Raw material inflation to moderate (likely at 1-2% in Q2) by H2FY2023; Management expects gross margins to stay at 38-40% in the near term, backed by improved mix and calibrated price hikes.
- APL's stock price moved up by ~20% from it recent low and the stock is currently trading at 70.4x/54.9x its FY2023/24E earnings. We maintain a Buy on the stock with an unchanged PT of Rs. 3,689.

Asian Paints (APL) posted yet another strong quarter with consolidated revenues and PAT growing by 54% and 83.5% respectively in Q1FY2023. Decorative paints business grew by 59% with volume growth of 37%. Sustained strong demand in Tier1 and 2 towns, which grew faster compared to Tier3 and 4 towns aided robust volume growth (also aided by low base of Q1FY2022 impacted by second COVID wave). Higher demand for luxury and premium paints in the T1/T2 towns led to improved mix. Further project and institutional business also maintained the strong growth trajectory aiding the company to maintain strong double-digit volume growth. Cumulative raw material inflation stood at 32% in Q1FY2023. However, the calibrated price hikes and a better product mix aided the company to arrest significant decline in the gross margins by 73 bps y-o-y to 37.7%. The OPM expanded by 172 bps y-o-y to 18.1% on better operating leverage. Adjusted PAT grew by 83.5%y-o-y to Rs. 1,053.9 crore.

Key positives

- Domestic decorative paints volumes grew 37% (20% on a 4-year CAGR basis) ahead of our as well as street expectation of 29% and 24-25%, respectively.
- Kitchen business saw fourth consecutive quarter of Rs. 100+crore revenues while Bath business delivered third consecutive quarter of Rs. 100+crore revenues; profitability continues to improve (clocked PBT of Rs. 5crore in Q1).
- Industrial businesses PPG-AP and AP-PPG registered double-digit revenue growth of 63% and 56%, respectively on back of good recovery in the auto sector and industrial coatings segment.

Key negatives

- Gross margins decreased by 73 bps y-o-y and 100 bps q-o-q.

Management Commentary

- Tier-1/Tier-2 towns saw strong double-digit growth (especially in luxury and premium range) and grew ahead of Tier-3/Tier-4 towns. Project & institutional business maintained its strong growth trajectory. Waterproofing segment's growth was ahead of overall growth in the decorative paints business. Tier-3/ Tier-4 towns saw some effect of inflation with cut on consumption/downtrading to low price products was seen in mass-end categories.
- APL has maintained strong double-digit volume growth (on 4 years CAGR basis) in the range of 15-20% consistently for the past five quarters. Demand in the Tier 1 and Tier 2 markets is expected to remain strong on back of pent-up demand, higher demand from institutional and project segments. Industrial business is expected to grow in double digits with higher infrastructures spends across country and recovery in the automotive paints. Good monsoon would help in improving consumer sentiments in the rural markets.
- Raw material inflation stood at 34% (since Q4FY2021), while the company has implemented cumulative price increase of 25%. It expects additional inflation of ~2% in Q2FY2023 and has undertaken a small price increase of 0.5%. Some key inputs such as Tio2 and solvent base inputs continues to remain high, which will inflate the input prices. It expects raw material inflation to moderate in H2FY2023.
- Gross margins expected to be in the range of 38-40%. The company is banking on planned initiatives (of differentiated formulations and cost efficiencies) along with better mix to achieve margins of 18-20% in the medium term.

Revision in estimates – We have increased our earnings estimates by 3% for FY2023 to factor in better than expected performance while we have broadly maintained it for FY2024. We will keenly monitor input price momentum and demand recovery in the Tier 3/4 in the coming quarters and according review our estimates in the coming quarters.

Our Call

View: Maintain Buy with an unchanged PT of Rs. 3,689: APL is focusing dominant positioning on becoming complete home décor play in the long run gives us a visibility of better earnings growth in the medium term. Market share gains, distribution expansion and sustained product additions will help the company to achieve consistent volume growth and maintain the leadership position in the paints business. We expect APL's revenues and PAT to grow at CAGR of 16% and 27% over FY2022-24. However, any increased competition from new entrant with higher capacity in the domestic paint industry would act as risk to profitability in the medium to long term. APL's stock price has moved up by 20% from it recent low and currently trades at 70.4x and 54.9x its FY2023E and FY2024E EPS. We maintain our Buy rating on the stock with an unchanged price target of Rs. 3,689.

Key Risks

Sustained high inflationary pressure putting pressure on sales volume in Tier2/4 market and volatile input prices would act as a key risk to our earnings estimates.

Valuation (consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	21,713	29,101	34,090	39,062
OPM (%)	22.4	16.5	18.2	19.9
Adjusted PAT	3,207	3,170	4,235	5,433
% YoY growth	15.4	-1.2	33.6	28.3
Adjusted EPS (Rs.)	33.4	33.1	44.1	56.6
P/E (x)	92.9	94.0	70.4	54.9
P/B (x)	23.3	21.6	18.7	15.5
EV/EBIDTA (x)	57.2	57.2	45.0	35.9
RoNW (%)	28.0	23.8	28.5	30.9
RoCE (%)	22.4	19.5	23.0	25.2

Source: Company; Sharekhan estimates

Strong Q1 – Revenue growth at 54%; OPM improved by 172 bps y-o-y

Asian Paints Ltd's (APL's) consolidated total revenues grew by 54.1% y-o-y to Rs. 8,606.9 crore backed by strong 37% volume growth in the domestic decorative paints business, the highest in the last six quarters (overall value growth of ~50%+). Four-year volume and value CAGR came in at 20% in Q1FY23. Bath fitting and kitchen business registered a growth of 116% y-o-y to Rs. 119 crore and 68.3% y-o-y to Rs. 111 crore, respectively. International business grew by 15.7% y-o-y to Rs. 705 crore, led by 24% y-o-y growth in Asia followed by 10% growth in Middle East, despite multiple headwinds in various geographies. Gross margins fell by 73 bps y-o-y to 37.7% mainly on account of higher input prices; sharp decline was arrested by price hikes and an increase in sales push of premium products. The consolidated OPM improved by 172 bps y-o-y to 18.1%. Operating profit grew by 70.3% y-o-y to Rs. 1,556 crore. Adjusted PAT before exceptional grew by 83.5% y-o-y to Rs. 1,053.9 crore. Exceptional item includes Rs. 24.21 crores towards exchange loss due to currency devaluation in Sri Lanka arising on foreign currency obligations of Causeway Paints Lanka (Pvt.) Limited (Causeway Paints). Reported PAT grew by 80.4% y-o-y to Rs. 1,036 crore.

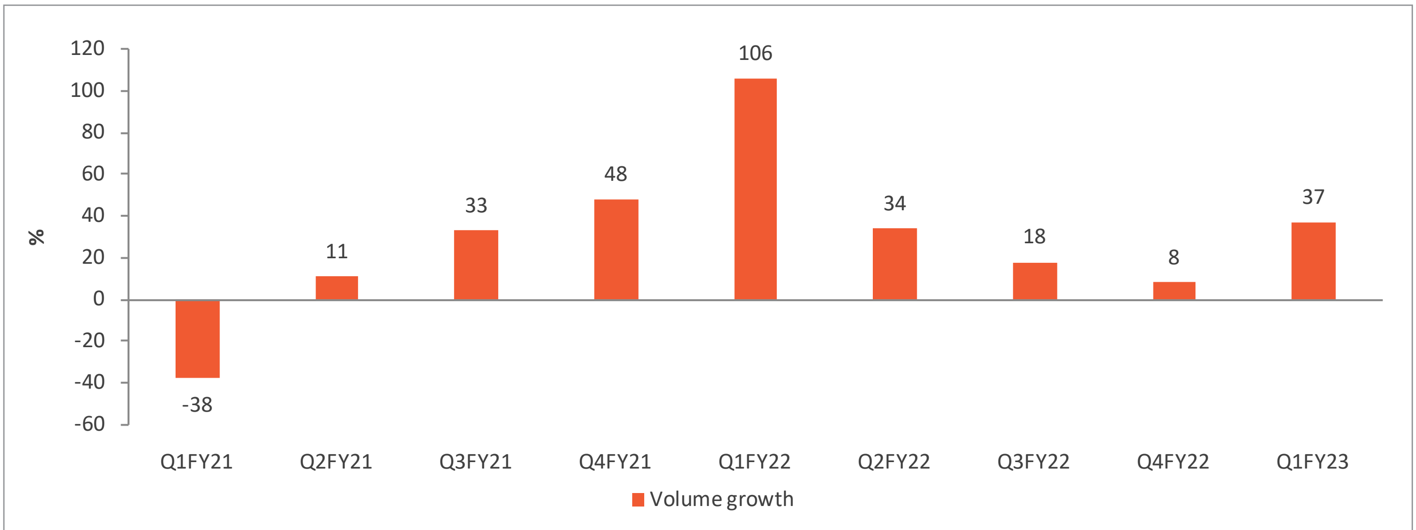
Standalone revenue growth at 59% y-o-y; PAT growth at 71% y-o-y

Standalone revenues grew by 58.5% y-o-y to Rs. 7,586.2 crore. Higher input cost led to 144 bps y-o-y decline in gross margins to 38.1%. Better cost optimization and efficiency measures led to 85 bps y-o-y increase in the OPM to 19.3%, despite lower gross margins. Operating profit grew by 66% to Rs. 1,462.5 crore and PAT grew by 71% y-o-y to Rs. 1,017.2 crore.

Key quarterly highlights

- **Domestic decorative business reported strong volume growth:** The domestic decorative business reported 37% volume growth and 59% value growth in Q1FY2023 with four-year volume/value CAGR at 20%, each. Tier-1/Tier-2 cities reported higher volume growth than Tier 3/Tier 4 towns. Tier-1/Tier-2 towns saw high double-digit volume growth with premium and luxury range registering strong traction, leading to a better mix. On the other hand, Tier-3/Tier-4 towns saw double digit growth in the economy range. In terms of regions, highest growth was seen in the West & South regions. The project/ institutional business reported strong growth with greater traction across segments – building construction, government projects, factories and co-operative housing societies in T1/T2/T3. Waterproofing/wood finish category is gaining strong traction and growing strongly q-o-q.

Volume growth trend

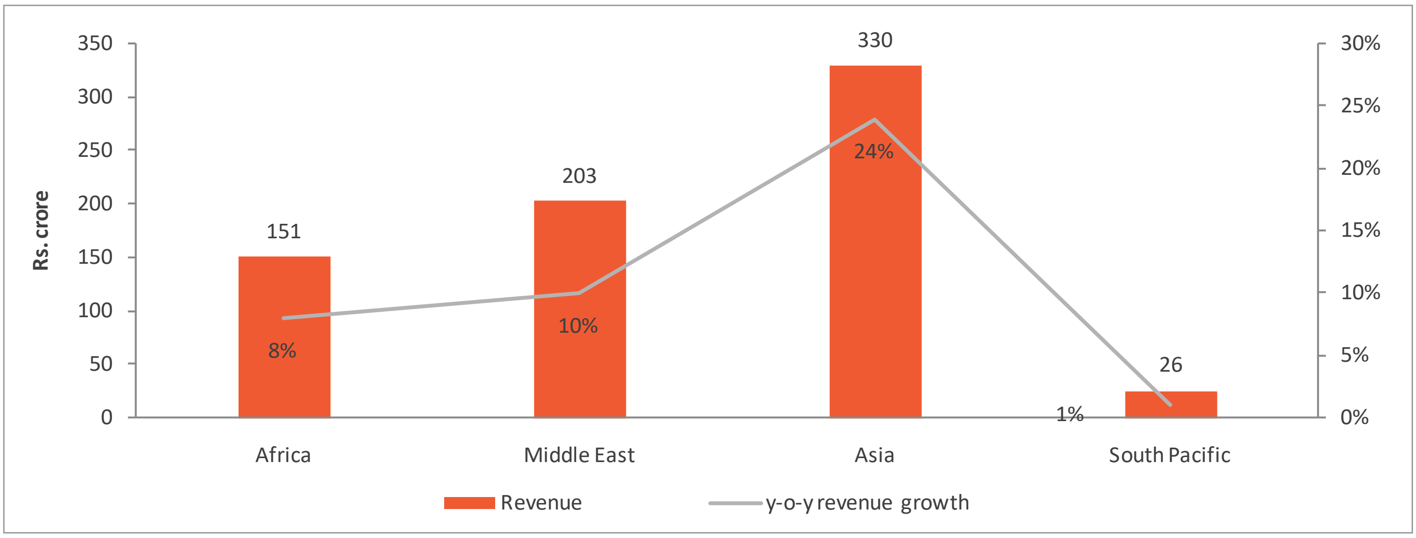


Source: Company; Sharekhan research

- **Home décor business on good growth trajectory:** The kitchen business' revenues grew by 68% y-o-y to Rs. 111 crore and bath business grew by 116% y-o-y to Rs. 119 crore. Strong growth in the kitchen business was driven by strong performance in full kitchen solutions and components business. Network expansion continued in full kitchen dealer network; with strong focus on customer delight. Kitchen business reported a loss of Rs. 7 crore in Q1FY2023, vs an Rs. 8 crore loss in Q1FY2022 impacted by the raw material inflation. In the bath business, premium range 'Bath Sense' & Sanitary ware are expanding well. The company is witnessing solid footing in the projects business in collaboration with the decorative project's team. The bath business registered a profit of Rs 5 crores in Q1FY2023 vs Rs 2 crores loss in Q1FY2022 benefiting from increased scale despite inflation effect. Both the kitchen and bath businesses are expected to maintain good growth momentum in the coming years with improvement in profitability due to improvement in scale of the business. In terms of the Beautiful Homes stores, APL currently has 31 stores operational across the country which provide home décor under one roof offering kitchen, bath and sanitaryware, lighting, tiles, flooring, furnishings, furniture, doors & windows. APL also added rugs to the Décor portfolio in the quarter. APL's Beautiful Homes Service, which is a personalized interior design to professional execution, is offered in nine cities across India and is gaining traction.

- **International business delivered price-led revenue growth of 16%:** International business reported revenue growth of 15.7%to Rs. 705 crore. Volumes were lower by 6% during the quarter, primarily in Sri Lanka. Asia, Middle East and Africa reported growth of 24%, 10% and 8% y-o-y to Rs. 330 crore, Rs. 203 crore and Rs. 151 crore, respectively. Growth in Asia was led by strong growth in Nepal and Bangladesh while Sri Lanka was impacted by extremely difficult operating environment. Muted performance in Africa was due to challenging conditions in Egypt as a result of forex tightness and competitive pressures. The international business' PBT stood at Rs. 38 crore in Q1FY2023 versus loss of Rs. 11 crore in Q1FY2022. Improved profitability was supported by higher revenue, steep price hikes, a favourable product mix and cost efficiencies.

Performance across regions in Q1FY2023



Source: Company; Sharekhan research

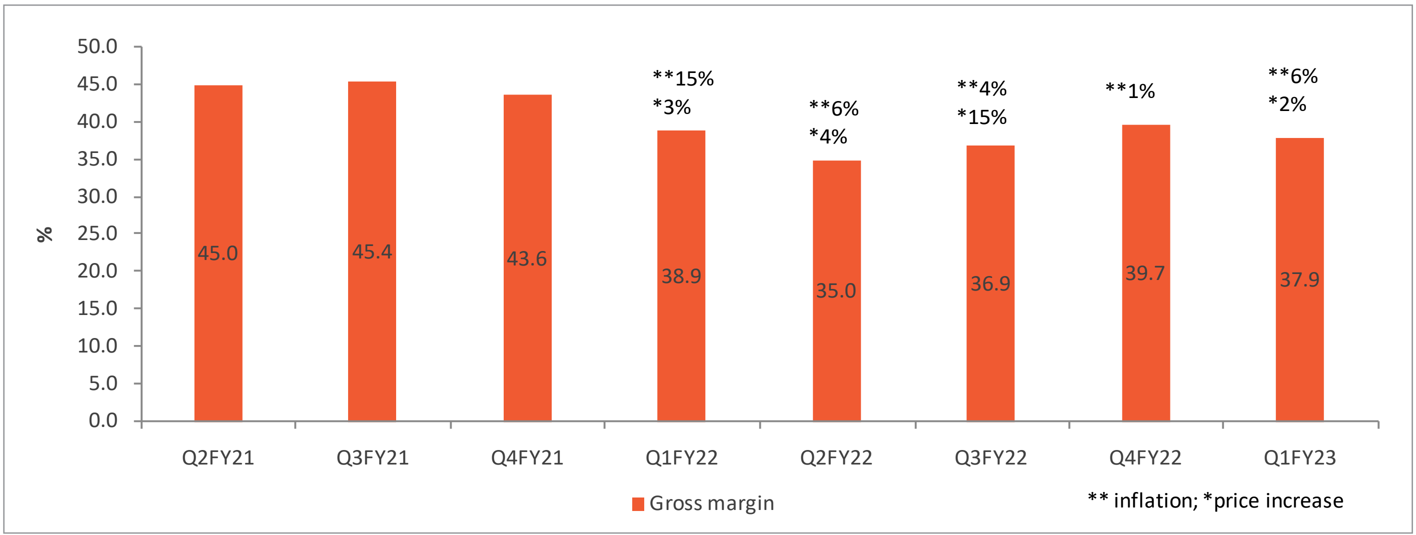
- **Industrial paints business continued growth momentum:** PPG Asian Paints (AP) business continued its growth momentum with revenue growth of 63% y-o-y to Rs. 416 crore despite challenges faced by auto industry. Mainline categories of Auto, GI & Refinish recovered to pre-Covid levels. PBT for the business came in at Rs. 32 crore against a loss of Rs. 6 crore in Q1FY2022. Asian Paints (AP) PPG business continued to deliver strong performance led by growth in powder and protective coatings segment. The business registered strong y-o-y growth of 56% and a four-year CAGR of ~19% to Rs. 242 crore in Q1FY2023. PBT was higher at Rs. 12 crore as compared to Rs. 4 crore in Q1FY2022. In both businesses, profitability has improved owing to higher revenue, price increases undertaken, efficiency and cost control measures.

Key conference call highlights

- **Aim to achieve double-digit volume growth in FY2023:** Volume growth in Q1FY2023 stood at 37% y-o-y and 20% on four-year CAGR basis. During the quarter, T1/T2 towns saw double-digit growth (especially in the luxury and premium range). T3/T4 towns saw some impact of inflation with cut on consumption/downtrading to low-priced products. Volume growth from projects business and waterproofing segment was higher in Q1FY2023. APL witnessed strong demand aided by marriages, pent-up demand, government spending and housing sector. West & South regions performed comparatively well in Q1FY2023. The company continued to gain market share led by better innovative products, good marketing and increased distribution. A fourth consecutive year of normal monsoon and expectation of a stable inflationary environment might help a recovery in the rural demand. Thus, the management is confident of achieving double digit volume growth in FY2023.

- **Home décor business scaling up with recent acquisitions:** APL's acquisition of White Teak and Weatherseal are done in line with its focus of transforming itself from company focusing on 'share of surface' to 'share of space' in the long run. White Teak generated revenue of Rs. 20 crore in Q1FY2023 against a revenue of Rs. 57 crore for the whole of FY2022 with good profitability aided by increase in number of stores (from current 10 stores) and also addition to beautiful homes stores. Recent acquisitions, expansion of retail reach (currently 31 home décor stores) and sustain growth in kitchen/bath business will help home décor business revenue contribution to reach to 10% by FY2025/26 from current 4%.
- **Raw material prices to remain volatile in near term:** Raw material inflation stood at 6%, while the company implemented price increase of 2% in Q1FY2023. The company expects additional inflation of 2% in Q2FY2023 and has undertaken small price increase of 0.5% so far in Q2. Further price increases will be undertaken depending on RM scenario in the coming quarters. As the raw material prices are expected to be volatile in the near term, gross margin pressures are likely to sustain with gross margins of 38-40%.

Gross margin trend



Source: Company; Sharekhan research

- **FY2023 capex at Rs. 800 crore:** The management has indicated that capex for FY2023 would be at Rs. 800 crore. APL is setting up new plant in Maharashtra, which is expected to be operational in Q4FY2023.
- **Strong network expansion plans:** APL has continuously expanded its Rurban footprint by entering into big cities, suburbs and Tier-3/4 towns. It added more than 5,000 retail points during the quarter taking the company's presence across 1,50,000 retail footprints. The company target to add more retail touch points every quarter. APL follows a strategy of enter new markets in clusters rather than penetrating in retailers in the vicinity of existing stores. The management has also indicated that there is no increase of inventory/ stocking at dealer end as APL is looking at working capital at the dealer end.

Results (consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Total Revenue	**8,606.9**	**5,585.4**	**54.1**	**7,892.7**	**9.0**
Raw Material Cost	5,361.9	3,438.9	55.9	4,838.1	10.8
Employee Cost	489.6	432.1	13.3	457.4	7.0
Other Expenses	1,199.5	800.8	49.8	1,154.0	3.9
Total Operating Cost	7,051.0	4,671.8	50.9	6,449.4	9.3
Operating Profit	**1,556.0**	**913.6**	**70.3**	**1,443.3**	**7.8**
Other Income	99.0	89.6	10.4	80.4	23.1
Interest & Other Financial Cost	28.8	21.5	33.8	22.6	27.1
Depreciation	208.1	200.6	3.7	205.1	1.5
Profit Before Tax	**1,418.1**	**781.1**	**81.5**	**1,296.0**	**9.4**
Tax Expense	376.9	204.3	84.5	345.2	9.2
Adjusted PAT	1,041.2	576.8	80.5	950.7	9.5
Share of profit from associates	12.8	-2.5	-	8.9	42.9
Adjusted PAT after MI	**1,053.9**	**574.3**	**83.5**	**959.7**	**9.8**
Exceptional Items	17.9	0.0	-	85.6	-
Reported PAT	1036.0	574.3	80.4	874.0	18.53
Adj. EPS (Rs)	**11.0**	**6.0**	**83.5**	**10.0**	**9.8**
			bps		**bps**
GPM (%)	37.7	38.4	-73	38.7	-100
OPM (%)	18.1	16.4	172	18.3	-21
NPM (%)	12.0	10.3	175	11.1	96
Tax rate (%)	26.6	26.2	42	26.6	-6

Source: Company, Sharekhan Research

Results (standalone) Rs cr

Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Total Revenue	**7,586.2**	**4,785.9**	**58.5**	**6,759.6**	**12.2**
Raw Material Cost	4,694.5	2,892.5	62.3	4,075.6	15.2
Employee Cost	363.6	316.1	15.0	333.3	9.1
Other Expenses	1,065.7	695.3	53.3	988.0	7.9
Total Operating Cost	6,123.8	3,903.9	56.9	5,396.9	13.5
Operating Profit	**1,462.5**	**882.0**	**65.8**	**1,362.7**	**7.3**
Other Income	113.8	105.6	7.8	89.1	27.7
Interest & Other Financial Cost	19.9	16.4	21.3	14.3	39.5
Depreciation	184.1	176.4	4.4	181.3	1.5
Profit Before Tax	**1,372.3**	**794.9**	**72.6**	**1,256.3**	**9.2**
Tax Expense	355.1	198.8	78.6	316.5	12.2
Adjusted PAT before MI	**1,017.2**	**596.1**	**70.7**	**939.7**	**8.2**
Adj. EPS (Rs)	**10.6**	**6.2**	**70.7**	**9.8**	**8.2**
			bps		bps
GPM (%)	38.1	39.6	-144	39.7	-159
OPM (%)	19.3	18.4	85	20.2	-88

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Structural growth of the paint industry is intact

The Indian paints industry reported an 11% CAGR over FY2011-FY2019 and stood at Rs. 545 billion. The decorative paints segment constitutes around 74% of total paint sales, resulting in the paint sector growing at a robust rate even at the time of an industrial slowdown. The industry is expected to post strong growth in Q1FY2023 on back of low base of Q1FY2022 (affected by the pandemic) and price increases of 20%+ (implemented to mitigate pricing pressures). Volatile input prices and a slowdown in the rural India are near-term headwinds for paint industry. The decorative paints industry is expected to post a 13% CAGR over FY2019-FY2024, led by reduction in the repainting cycle to 4-5 years (from 8-10 years earlier), acceptance for better paint products in smaller towns, and upgradation of premium brands in cities and large towns. Better product mix and efficiencies would help paint companies to post higher margins in long run.

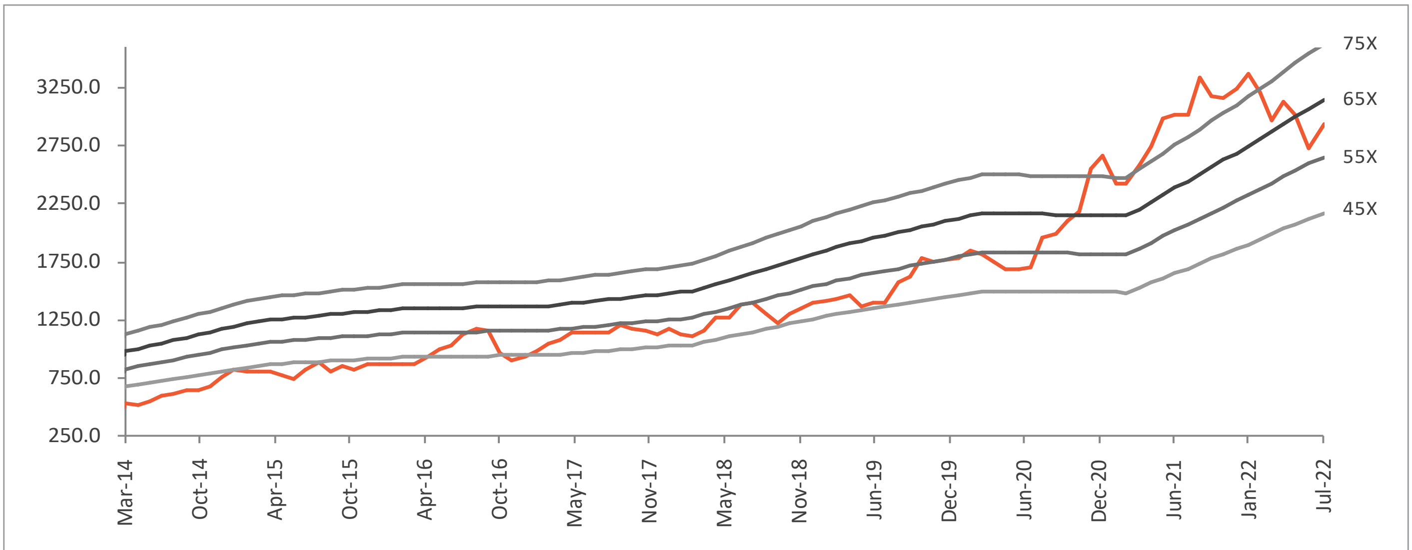
■ Company outlook - Volume growth momentum to sustain; margins to better off in H2

APL maintained double-digit volume growth in the range of 15-20% (on 4 years CAGR basis) for last five quarters. This was on back of sustained high demand in the Tier 1 and Tier 2 markets. Waterproofing products, Construction chemicals and the project business will continue to witness strong traction from real estate sector, government projects and housing society projects in the medium term. The company targets double digit volume growth in the near term. Price increase will help the revenue growth to remain in high double digits. It expects raw material inflation to moderate in H2FY2023. Gross margins expected to be in the range of 38-40%. The company is banking on planned initiatives (of differentiated formulations and cost efficiencies) along with a better mix to achieve margins of 18-20% in the medium term.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 3,689:

APL is focusing dominant positioning on becoming complete home décor play in the long run gives us a visibility of better earnings growth in the medium term. Market share gains, distribution expansion and sustained product additions will help the company to achieve consistent volume growth and maintain the leadership position in the paints business. We expect APL's revenues and PAT to grow at CAGR of 16% and 27% over FY2022-24. However, any increased competition from new entrant with higher capacity in the domestic paint industry would act as risk to profitability in the medium to long term. APL's stock price has moved up by 20% from it recent low and currently trades at 70.4x and 54.9x its FY2023E and FY2024E EPS. We maintain our Buy rating on the stock with an unchanged price target of Rs. 3,689.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Berger Paints	68.1	56.3	46.5	43.9	35.6	29.1	19.4	20.0	21.5
Indigo Paints	78.4	42.7	30.8	46.5	28.3	20.1	18.1	29.5	37.3
Asian Paints	94.0	70.4	54.9	57.2	44.9	35.9	19.5	23.0	25.2

Source: Company; Sharekhan Research

About company

APL is the largest paint company in India with market leadership of over 50 years and stands among the top 10 paint companies in the world. The company has 27 paint manufacturing plants and operates in 15 countries, serving customers in over 60 countries globally. Deco India, including decorative paints, waterproofing, wall coverings, and adhesives, constitutes almost 84% to the company's total revenue, whereas the industrial coatings space, including automotive and non-automotive, constitutes only 2%, through two 50:50 joint ventures with PPG industries Inc., USA (AP-PPG). The international business contributes ~12% to the total revenue mainly dominated by Nepal, Sri Lanka, and Bahrain. A small portion is contributed by kitchen and bath fittings through its subsidiary, Sleek International Pvt. Ltd. (Sleek Kitchens) and EssEss Bath Fittings. The company has forayed into home décor space as it transitions its outlook from 'share of surface' to 'share of space'.

Investment theme

The rising middle-income group, fast urbanisation, shift from the unorganised to organised space, and improving penetration in rural markets are some of the key revenue drivers for paint companies in the near to medium term. APL, with a leadership position in the decorative paint business and strong brand portfolio, will continue to deliver good earnings growth in the near term. APL is expected to benefit from its recent capacity expansion, vast distribution network, product innovation, and growth in its premium products.

Key Risks

- **Increased raw-material prices:** Any significant increase in crude prices and other input costs will affect the company's profitability.
- **Slowdown in economic growth:** Any slowdown in economic growth will affect repainting demand, which constitutes almost 70% of the total paint demand.
- **Slowdown in the auto industry:** Any sluggishness in demand in the auto industry or slowdown in infrastructure development will affect the industrial coatings segment.

Additional Data

Key management personnel

Deepak Satwalekar	Chairman
Amit Syngle	Managing Director and CEO
R J Jeyamurugan	CFO and Company Secretary

Source: Company

Top 9 shareholders

Sr. No.	Holder Name	Holding (%)
1	Teesta Retail Pvt Ltd	4.90
2	Life Insurance Corp of India	2.41
3	Vanguard Group Inc	1.81
4	Blackrock Inc	1.57
5	SBI Funds Management	1.4
6	Capital Group Companies	1.31
7	St James Place PLC	0.67
8	UTI Asset Management Co Ltd	0.63
9	Axis Asset Management Co Ltd	0.36

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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